

AO MOSENERGO

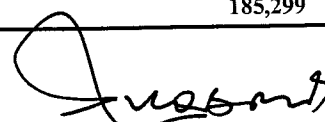

**Consolidated interim financial statements
(prepared in accordance with IFRS)
for the three and nine month periods ended 30 September 2008
(unaudited)**

AO MOSENERGO
Consolidated Interim Balance Sheets
(in millions of Russian Roubles)

| | Note | 30 September 2008 (unaudited) | 31 December 2007 |
|--|------|-------------------------------------|---------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 7 | 137,048 | 122,547 |
| Investment property | 8 | 1,225 | 1,288 |
| Investments in equity accounted investees | 9 | 1,041 | 1,246 |
| Advances for acquisition of property, plant and equipment | | 9,636 | 8,663 |
| Other non-current assets | 13 | 84 | 92 |
| Total non-current assets | | 149,034 | 133,836 |
| Current assets | | | |
| Inventories | 10 | 4,591 | 4,444 |
| Investments | 11 | 13,675 | 23,201 |
| Income tax receivable | | 633 | 41 |
| Trade and other receivables | 12 | 13,614 | 10,344 |
| Other current assets | 13 | 2,227 | 1,998 |
| Cash and cash equivalents | 14 | 1,525 | 11,161 |
| Total current assets | | 36,265 | 51,189 |
| Total assets | | 185,299 | 185,025 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 15 | 166,124 | 166,124 |
| Treasury stock | | (871) | - |
| Share premium | | 49,213 | 49,213 |
| Reserves | | 37,466 | 37,534 |
| Accumulated loss | | (116,627) | (117,211) |
| Total equity | | 135,305 | 135,660 |
| Non-current liabilities | | | |
| Non-current borrowings | 16 | 15,191 | 129 |
| Deferred tax liabilities | 28 | 17,854 | 17,427 |
| Employee benefits | 17 | 943 | 1,279 |
| Total non-current liabilities | | 33,988 | 18,835 |
| Current liabilities | | | |
| Current borrowings and current portion of non-current borrowings | 16 | 1,331 | 17,476 |
| Trade and other payables | 18 | 13,813 | 10,950 |
| Income tax payable | | 152 | 478 |
| Other taxes payable | 19 | 679 | 611 |
| Provisions | 20 | 31 | 1,015 |
| Total current liabilities | | 16,006 | 30,530 |
| Total liabilities | | 49,994 | 49,365 |
| Total equity and liabilities | | 185,299 | 185,025 |

General Director

Chief Accountant

V.G. Yakovlev

S.A. Suraev

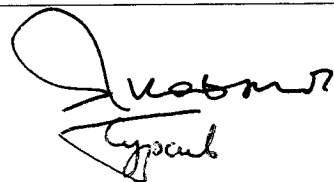
23 December 2008

AO MOSENERGO
Consolidated Interim Statements of Operations
(in millions of Russian Roubles)

| | Note | For the three months ended 30 September 2008 (unaudited) | For the three months ended 30 September 2007 (unaudited) | For the nine months ended 30 September 2008 (unaudited) | For the nine months ended 30 September 2007 (unaudited) |
|--|------|--|--|---|---|
| Revenue | 21 | 18,014 | 12,336 | 66,079 | 53,164 |
| Cost of materials | 22 | (11,431) | (8,175) | (37,835) | (29,439) |
| Other external supplies | 23 | (2,611) | (2,088) | (12,725) | (11,408) |
| Personnel expenses | 24 | (2,622) | (2,253) | (7,423) | (5,616) |
| Depreciation of property, plant and equipment | 7 | (1,921) | (1,667) | (5,298) | (5,052) |
| Taxes other than income tax | | (332) | 186 | (949) | (1,167) |
| Other operating expenses | 25 | (880) | (932) | (3,132) | (3,081) |
| Other operating income | 26 | 411 | 58 | 604 | 249 |
| Results from operating activities | | (1,372) | (2,535) | (679) | (2,350) |
| Financial income | 27 | 331 | 570 | 1,220 | 906 |
| Financial expenses | 27 | (244) | (23) | (827) | (598) |
| Share of (loss) / profit of equity accounted investees | 9 | (27) | (7) | (41) | 22 |
| Loss before income tax | | (1,312) | (1,995) | (327) | (2,020) |
| Income tax benefit / (expense) | 28 | 155 | 325 | (66) | (152) |
| Loss for the period | | (1,157) | (1,670) | (393) | (2,172) |
| Loss per ordinary share (in Russian Roubles): | 29 | | | | |
| Basic | | (0.03) | (0.06) | (0.01) | (0.07) |
| Diluted | | (0.03) | (0.06) | (0.01) | (0.07) |

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23 December 2008

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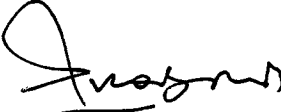

Consolidated Interim Statements of Cash Flows

(in millions of Russian Roubles)

| | Note | For the nine months ended 30 September 2008 (unaudited) | For the nine months ended 30 September 2007 (unaudited) |
|---|-----------|---|---|
| Cash flow from operating activities | | | |
| Loss before income tax | | (327) | (2,020) |
| <i>Adjustments for:</i> | | | |
| Depreciation | | 5,306 | 5,052 |
| Loss on disposal of property, plant and equipment | | 13 | 571 |
| Net financial expenses | | (523) | (308) |
| Share of loss / (profit) of equity accounted investees | | 41 | (22) |
| Trade and other receivables impairment loss | | 687 | 234 |
| Other | | 87 | 31 |
| Operating profit/(loss) before changes in working capital and provisions | | 5,284 | 3,538 |
| Change in inventories | | (132) | (330) |
| Change in trade and other receivables | | (2,985) | (5,210) |
| Change in restricted cash | | (56) | 101 |
| Change in trade and other payables | | 2,879 | 1,807 |
| Change in taxes payables, other than income tax | | 91 | (255) |
| Change in provisions and employee benefits | | (221) | 71 |
| Cash flows from operations before income tax and interest paid | | 4,860 | (278) |
| Income tax paid | | (558) | (2,069) |
| Interest paid | | (819) | (1,425) |
| Cash flows from operating activities | | 3,483 | (3,772) |
| Cash flows from investing activities | | | |
| Proceeds from sale of property, plant and equipment | | 37 | 25 |
| Proceeds from disposal of investments | | 22,911 | - |
| Interest received | | 177 | 127 |
| Dividends received | | 171 | 49 |
| Acquisition of property, plant and equipment | | (20,532) | (19,569) |
| Acquisition of investments | | (13,385) | (21,647) |
| Interest paid and capitalised | | (436) | (786) |
| Cash flows from investing activities | | (11,057) | (41,801) |
| Cash flows from financing activities | | | |
| Proceeds from the issue of share capital | | - | 60,720 |
| Costs of the share capital issue | | - | (7) |
| Proceeds from borrowings | | - | 7,439 |
| Repayment of borrowings | | (1,093) | (10,797) |
| Buy-out of own shares | | (969) | - |
| Dividends paid | | - | (743) |
| Cash flows from financing activities | | (2,062) | 56,612 |
| Net (decrease) / increase in cash and cash equivalents | | (9,636) | 11,039 |
| Cash and cash equivalents at the beginning of the period | 14 | 11,161 | 5,729 |
| Cash and cash equivalents at the end of the period | 14 | 1,525 | 16,768 |

General Director

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23 December 2008

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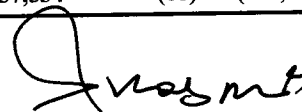

Consolidated Interim Statements of Changes in Equity

(in millions of Russian Roubles)

| | Share capital | Treasury stock | Share premium | Revaluation reserve | Available-for-sale investments revaluation reserve | Accumulated loss | Total |
|---|---------------|----------------|---------------|---------------------|--|------------------|---------|
| Balance at 31 December 2006 as previously reported | 154,624 | - | - | - | - | (115,510) | 39,114 |
| Correction of prior period errors | - | - | - | - | - | (884) | (884) |
| Balance at 1 January 2007 (restated) | 154,624 | - | - | - | - | (116,394) | 38,230 |
| Loss for the period | - | - | - | - | - | (2,172) | (2,172) |
| Revaluation of property, plant and equipment | - | - | - | 37,534 | - | - | 37,534 |
| Total recognised income and expenses | - | - | - | - | - | - | 35,362 |
| Shares issued | 11,500 | - | 49,213 | - | - | - | 60,713 |
| Dividends to shareholders | - | - | - | - | - | (896) | (896) |
| Balance at 30 September 2007 | 166,124 | - | 49,213 | 37,534 | - | (119,462) | 133,409 |
| Balance at 1 January 2008 | 166,124 | - | 49,213 | 37,534 | - | (117,211) | 135,660 |
| Loss for the period | - | - | - | - | - | (393) | (393) |
| Revaluation of available-for-sale investments | - | - | - | - | (68) | - | (68) |
| Total recognised income and expenses | - | - | - | - | - | - | (461) |
| Contribution from shareholders | - | - | - | - | - | 8 | 8 |
| Buy-out of own shares | - | (871) | - | - | - | 969 | 98 |
| Balance at 30 September 2008 | 166,124 | (871) | 49,213 | 37,534 | (68) | (116,627) | 135,305 |

General Director

Chief Accountant

 V.G. Yakovlev
 S.A. Suraev

23 December 2008

Note 1. The Group and its operations

(a) Organization and operations

The Open Joint Stock Company Mosenergo (the “Company”) and its subsidiaries (together referred as the “Group” or the “Mosenergo Group”) are primarily involved in generation of heat and electric power and heat distribution services in the Moscow city and Moscow region.

The Group’s power and heat generation base includes 17 power stations with operational capacity equaled approximately 11,117.3 megawatts (“MW”) and 34,297.4 gigacalories (“Gkal”) of electricity and heat capacity, respectively.

OJSC Mosenergo was registered under the legislation of the Russian Federation on 6 April 1993 in accordance with State Property Management Committee Decree 169-R dated 26 March 1993 following the privatization process of electricity and heat power generation, transmission and distribution assets formerly under control of the Ministry of Energy of the Russian Federation.

The Company’s registered office is located at 8, Raushskaya Naberezhnaya, Moscow, 115035, Russian Federation.

(b) Group formation

On 1 April 2005 the Company was reorganized in form of spin-off following the reorganization process within Russian electricity sector aimed to introduce competition into the electricity market and to enable the companies of electricity sector to maintain and further expand production capacity. The Company’s restructuring was approved by general shareholder’s meeting on 28 June 2004. Before the restructuring took place the Company operated as integrated utility model, which included generation, transmission and distribution activities. As a result of the restructuring 13 new entities were separated from the Company and each shareholder of the Company received ordinary shares of each of the separated entities pro rata to Company’s shares held by them prior to spin-off.

General shareholders’ meeting held on 20 December 2006 approved closed subscription for the additional shares issued in favour of OJSC Gazprom and its affiliates (together referred as the “Gazprom Group”). As a result, the majority shareholder of OJSC Mosenergo has changed from RAO UES of Russia to Gazprom Group holding 53.47% of ordinary shares.

Following the reorganization process extraordinary general shareholder’s meeting of RAO UES of Russia on 26 October 2007 decided to spin-off several holding companies to which shares in electricity generation companies, including Mosenergo, held by RAO UES of Russia, were transferred. Holdings separated from RAO UES of Russia were merged with generation companies by means of shares conversion, which enabled the shareholders of RAO UES of Russia to receive direct shares in generation companies after reorganization. Accordingly, upon spin-off from RAO UES of Russia OJSC Mosenergo Holding (the “Mosenergo Holding”) received stake in Mosenergo held by RAO UES of Russia. Simultaneously with the spin-off Mosenergo Holding was merged with the Company and its shares were converted into the Company’s shares.

(c) Business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. The consolidated interim financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

(d) Relations with the state and current regulation

At the end of the reporting period the Russian Federation owned (both direct and indirect ownership) over 50% in OJSC Gazprom (the “parent”), which held 53.47% in the Company. Thus the Russian Federation is the ultimate controlling party of the Group.

The government of the Russian Federation directly affects the Group’s operations through regulations of wholesale and retail sales of electricity and heat exercised by the Federal Service on Tariffs (the “FST”) and the Regional Energy Commissions of Moscow and Moscow region (the “RECs”), respectively. OJSC “System Operator - Central Despatch Unit of Unified Energy System” (the “SO - CDU UES”), which is controlled by the Russian Federation, regulates operations of generating assets of the Group.

The Group’s customer base as well as suppliers’ chain includes a large number of entities controlled by or related to the state.

As described in Notes 6 and 31, the government’s economic, social and other policies could materially effect operations of the Group.

AO MOSENERGO

Notes to Consolidated Interim Financial Statements

(in millions of Russian Roubles)

Note 1. The Group and its operations (continued)

(e) Industry restructuring

Following Russian electric utility sector restructuring aimed to introduce competition to electricity (capacity) market the New Wholesale Electric Power (capacity) Market Rules of the Transitional Period (the "NOREM") approved by Resolution of the Government of the Russian Federation No. 529 dated 31 August 2006 were adopted. Under the new wholesale market framework, electricity and power purchases-sales transactions in the regulated market sector are to be governed by a regulated bilateral contract system. Starting 1 September 2006 regulated contracts covered all volumes of electricity and power produced and consumed.

Starting 2007, the volumes of electricity and power traded in the wholesale market applying regulated prices are reducing. The period from 2006 to 2011 is considered as the transition period. Upon the termination of transition period, organisation of electricity wholesale competitive market will be completed.

Note 2. Basis of preparation

(a) Statement of compliance

These consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The consolidated interim financial statements are prepared on the historical cost basis except that property, plant and equipment and investment property are revalued periodically; available-for-sale financial assets are measured at fair value; and the carrying amounts of equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, GosKomStat. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

The methods used to measure fair values are discussed further in Note 4.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (RR), which is the Group's functional currency and the currency in which these consolidated interim financial statements are presented. All financial information presented in RR has been rounded to the nearest million.

(d) Use of estimates and judgment

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 7 – Property, plant and equipment;
- Note 8 – Investment property;
- Note 17 – Employee benefits;
- Note 20 – Provisions;

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Notes to Consolidated Interim Financial Statements

(in millions of Russian Roubles)

Note 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated interim financial statements, and have been applied consistently by the Group entities.

Certain comparative amounts have been reclassified to conform with the current period's presentation. In addition, presentation of comparative statement of operations has been revised to present more detailed classification of expenses based on their nature to provide the users of the financial statements with more relevant information about the financial performance of the Group.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at the date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Note 3. Significant accounting policies (continued)*Available-for-sale financial assets*

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign currency differences on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) Share capital*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

(d) Property, plant and equipment**(i) Recognition and measurement**

Until 31 December 2006, items of property, plant and equipment, except for land, were measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 31 December 1997, the date of transition to IFRSs, was determined by reference to its fair value at that date and subsequently restated to take into account the impact of inflation until 31 December 2002.

The Group changed its accounting policy to revaluing its property, plant and equipment starting from 1 January 2007 as management believes that it would provide the users of the financial statements with more relevant information about the financial position of the Group.

Property, plant and equipment are subject to revaluation on a regular basis to ensure that the carrying amount does not differ materially from that, which would be determined using fair value at the balance sheet date. Increase in the carrying amount of property, plant and equipment as a result of revaluation is credited directly to equity under the heading revaluation reserve, unless the decrease of the reserve was previously recognised in profit or loss. Decrease in the carrying amount shall be debited to equity to the extent of any credit balance existing in the revaluation reserve. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

The effects of taxes on income resulting from the revaluation of property, plant and equipment are charged directly to equity.

Cost of acquired assets includes expenditure that is directly attributable to the acquisition of the asset. The cost of self constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Note 3. Significant accounting policies (continued)

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of that asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are recognised net in "other operating expenses" in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Reclassification to investment property

Property that is being constructed for future use as investment property is accounted for as property, plant and equipment until construction or development is complete, at which time it is remeasured to fair value and reclassified to investment property. Any gain or loss arising on remeasurement is recognised in profit or loss.

When the use of property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognised in profit or loss to the extent the gain reverses previous impairment loss on a specific property, with any remaining gain recognised in the revaluation reserve directly in equity. Any loss is recognised in the revaluation reserve directly in equity to the extent that an amount is included in equity relating to a specific property, with any remaining loss recognised immediately in profit or loss.

(iii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

(iv) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of lease term. Depreciation of an asset begins when it is available for use.

The estimated useful lives for the current and comparative periods are as follows:

| | |
|---|-------------|
| • Production buildings | 30-50 years |
| • Hydraulic constructions | 15-25 years |
| • Other production constructions | 11-35 years |
| • Plant and equipment of heat and power generation stations | 15-35 years |
| • Plant and equipment of power substations | 16-25 years |
| • Heating networks | 7-20 years |
| • Other | 15 years |

Depreciation methods, useful lives and residual values are reviewed at each reporting date. Estimates in respect of useful lives of property, plant and equipment were revised in 2008 and became effective starting from 1 January 2008.

(e) Intangible assets**(i) Other intangible assets**

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

AO MOSENERGO

Notes to Consolidated Interim Financial Statements

(in millions of Russian Roubles)

Note 3. Significant accounting policies (continued)

(iii) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- patents and trademarks 10-20 years
- software 5-7 years

(f) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change therein recognized in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

Note 3. Significant accounting policies (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Employee benefits**(i) Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

(ii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(vi) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Note 3. Significant accounting policies (continued)**(k) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(l) Revenues**(i) Goods sold**

Revenues from sales of electricity and heat are recognised when electricity and heat are delivered to customers.

Revenue from the sale of goods other than electricity and heat is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(m) Government grants

An unconditional government grants are recognised in profit or loss when the grant becomes receivable.

Other government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

(n) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(o) Financial income and expenses

Financial income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on gross basis.

(p) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Note 3. Significant accounting policies (continued)

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(q) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(r) Segment reporting

The Group operates predominantly in a single geographical area and industry, the generation of electric power and heat in the city of Moscow and Moscow region. It is not feasible to identify distinguishable business segments for electric power and heat production. The generation of electricity and heat are related activities and are subject to similar risks and returns, therefore they are reported as one business segment.

(s) New Standards and Interpretations not yet adopted

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 30 September 2008, and have not been applied in preparing these consolidated interim financial statements. The Group plans to adopt these pronouncements when they become effective.

- IFRS 8 *Operating Segments* introduces the “management approach” to segment reporting. IFRS 8 *Operating Segments*, which becomes mandatory for the Group’s 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group’s Chief Operating Decision Maker in order to assess each segment’s performance and to allocate resources to them. Currently the Group does not present segment information in respect of its business and geographical segments as operated in one geographical and business segments (see Note 3 (r)). The new Standard will not have any impact on the Group’s financial position or performance.
- Revised IAS 1 *Presentation of Financial Statements (2007)* which becomes mandatory for the Group’s 2009 consolidated financial statements is expected to have a significant impact on the presentation of the consolidated financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.
- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. In accordance with the transitional provisions the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. The amendments to IAS 23, which become mandatory for the Group’s 2009 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

Note 3. Significant accounting policies (continued)

- Amended IAS 27 *Consolidated and Separate Financial Statements (2008)* requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.
- Amendments to IAS 32 *Financial instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009 financial statements, with retrospective application required, are not expected to have any impact on the consolidated financial statements.
- Amendment to IAS 39 *Financial Instruments: Recognition and – Measurement Eligible Hedged Items* clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment, which becomes mandatory for the Group's 2010 financial statements, with retrospective application required, is not expected to have any impact on the consolidated financial statements.
- Amendments to IFRS 1 *First-time adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a subsidiary, jointly controlled entity or Associate* which will come into effect on 1 January 2009. The Group has not yet determined the potential effect of the amendment.
- Amendment to IFRS 2 *Share-based Payment – Vesting conditions and cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 financial statements, with retrospective application required, are not expected to have any impact on the consolidated financial statements..
- Revised IFRS 3 *Business Combinations (2008)* and amended IAS 27 *(2008) Consolidated and Separate Financial Statements*, which come into effect on 1 July 2009 (i.e. becomes mandatory for the Group's 2010 financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to account for effects of transactions with non-controlling interest directly in equity.
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*, which requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. Retrospective application of IFRIC 11 is required. IFRIC 11 became mandatory for the Group's 2008 financial statements. Adoption of IFRIC 11 did not materially affect the consolidated financial statements.
- IFRIC 12 *Service Concession Arrangements* provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12 became mandatory for the Group's 2008 financial statements. Adoption of IFRIC 12 did not materially affect the consolidated financial statements.
- IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements, is not expected to have any effect on the consolidated financial statements.
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 became mandatory for the Group's 2008 financial statements. Retrospective application of IFRIC 14 is required. Adoption of IFRIC 14 did not materially affect the consolidated financial statements.

Note 3. Significant accounting policies (continued)

- IFRIC 15 *Agreements for the Construction of Real Estate* addresses the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. IFRIC 15, which becomes mandatory for the Group's 2009 financial statements, is not expected to have any effect on the consolidated financial statements.
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* applies to all entities using net investment hedging for its investments in foreign operations. IFRIC 16 clarifies the nature of the hedged risk and the amount of the hedged item for which a hedging relationship may be designated. It also addresses where in a group the hedging instrument can be held and provides guidance on the consequences of disposal of a hedged foreign operation. IFRIC 16 will come into effect on 1 October 2008 (i.e. became mandatory for the Group's 2009 financial statements). IFRIC 16 is not expected to have any effect on the consolidated financial statements.
- Various *Improvements to IFRSs*, dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purpose, will come into effect not earlier than 1 January 2009. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

Note 4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment

The fair value of property, plant and equipment is determined using depreciated replacement cost method. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation and obsolescence.

The depreciated replacement cost was estimated based on internal sources, statistical data, catalogues and market data in respect of prices of construction companies and suppliers of equipment. The economic obsolescence was determined based on cash flow test results for each cash-generating unit.

(ii) Investment property

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio every year end. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

In the interim financial statements the valuations of investment property is determined using internationally accepted valuation methods.

Valuations reflect, when appropriate: the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness; the allocation of maintenance and insurance responsibilities between the Group and the lessee; and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

(iii) Investments in equity and debt securities

The fair values of held-to-maturity investments and available-for-sale financial assets are determined by reference to their quoted closing bid price at the reporting date.

(iv) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(v) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Note 5. Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated interim financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework and control environment mitigating those risks.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, industry, aging profile, maturity and existence of previous financial difficulties.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(ii) Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a credit rating of at least BBB- from Moody's and BBB from Fitch Ratings. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Note 5. Financial risk management (continued)**(d) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Group is exposed to currency risk on purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies in which these transactions primarily are denominated are Euro, USD and Swiss Francs (CHF).

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

(e) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

There were no changes in the Group's approach to capital management during the period.

In addition, the Group is subject to restrictive financial covenants on its credit facility (see Note 16(b)). The covenants establish certain financial ratios, which are defined based on the consolidated financial statements of the Group prepared under IFRSs. The Group monitors compliance with the covenants and reports to the banks on a regular basis.

Note 6. Related party transactions

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the nine and three months ended 30 September 2008 and the nine and three months ended 30 September 2007 or had significant balances outstanding at 30 September 2008 and 31 December 2007 are detailed below.

(a) Parent company and its affiliates

The Russian Federation was an ultimate controlling party of the Group during the current and prior reporting periods.

(i) Transactions with Gazprom and its affiliates

At 30 September 2008 the Russian Federation owned (both direct and indirect ownership) over 50% in OJSC Gazprom (the "parent"), which in its turn held 53.47% in the Company.

In June 2007 Gazprom Group acquired additional shares of Mosenergo and thus increased its interest in Mosenergo up to the controlling stake.

AO MOSENERGO**Notes to Consolidated Interim Financial Statements**

(in millions of Russian Roubles)

Note 6. Related party transactions (continued)**Revenue**

| | For the three months ended 30 September 2008 | For the three months ended 30 September 2007 | For the nine months ended 30 September 2008 | For the nine months ended 30 September 2007 |
|----------------------|---|---|--|--|
| Other revenue | 41 | 43 | 127 | 130 |
| Total revenue | 41 | 43 | 127 | 130 |

Expenses

| | For the three months ended 30 September 2008 | For the three months ended 30 September 2007 | For the nine months ended 30 September 2008 | For the nine months ended 30 September 2007 |
|-----------------------|---|---|--|--|
| Fuel expenses | (9,399) | (6,232) | (32,070) | (22,810) |
| Other services | - | (30) | - | (54) |
| Total expenses | (9,399) | (6,262) | (32,070) | (22,864) |

Financial income and expenses

| | For the three months ended 30 September 2008 | For the three months ended 30 September 2007 | For the nine months ended 30 September 2008 | For the nine months ended 30 September 2007 |
|-----------------------------|---|---|--|--|
| Financial income | 292 | 415 | 876 | 658 |
| Financial expenses | - | (3) | (1) | (4) |
| Net financial income | 292 | 412 | 875 | 654 |

Outstanding balance

| | Outstanding balance at 30 September 2008 | Outstanding balance at 31 December 2007 |
|-----------------------------|--|---|
| Investments | 13,665 | 15,201 |
| Trade and other receivables | 309 | 52 |
| Other current assets | 44 | 31 |
| Cash and cash equivalents | 549 | 5,353 |
| Total assets | 14,567 | 20,637 |
| Trade and other payables | (21) | (50) |
| Total liabilities | (21) | (50) |

Borrowings

| | Amount loaned for the nine months ended 30 September 2008 | Amount loaned for the nine months ended 30 September 2007 | Outstanding balance at 30 September 2008 | Outstanding balance at 31 December 2007 |
|---|--|--|--|---|
| Current borrowings and current portion of non-current borrowings | (733) | (3,367) | - | - |
| Total borrowings | (733) | (3,367) | - | - |

(ii) Transactions with RAO UES of Russia, its affiliates and successor companies

Until the end of May 2007 the Russian Federation owned (both direct and indirect ownership) over 50% in RAO UES of Russia, which in its turn held 52.68% in the Company.

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Notes to Consolidated Interim Financial Statements

(in millions of Russian Roubles)

Note 6. Related party transactions (continued)

Revenue

| | For the three months ended 30 September 2008 | For the three months ended 30 September 2007 | For the nine months ended 30 September 2008 | For the nine months ended 30 September 2007 |
|----------------------|---|---|--|--|
| Electricity | 10,708 | 8,162 | 30,479 | 26,210 |
| Heat | 233 | 164 | 1,149 | 785 |
| Other revenue | 529 | 285 | 1,492 | 1,525 |
| Total revenue | 11,470 | 8,611 | 33,120 | 28,520 |

Expenses

| | For the three months ended 30 September 2008 | For the three months ended 30 September 2007 | For the nine months ended 30 September 2008 | For the nine months ended 30 September 2007 |
|--|---|---|--|--|
| Purchased heat and electricity | (1,931) | (876) | (3,437) | (2,182) |
| Electricity market administration fees | (196) | (134) | (547) | (403) |
| Heat energy transmission | (1,249) | (855) | (9,619) | (8,205) |
| Other services | (8) | (9) | (8) | (21) |
| Total expenses | (3,384) | (1,874) | (13,611) | (10,811) |

Outstanding balance

| | Outstanding balance at 30 September 2008 | Outstanding balance at 31 December 2007 |
|-----------------------------|--|---|
| Trade and other receivables | 1,576 | 1,739 |
| Total assets | 1,576 | 1,739 |
| Trade and other payables | (1,884) | (2,337) |
| Total liabilities | (1,884) | (2,337) |

(b) Transactions with equity accounted investees

The Group provided rent services to LLC CB Transinvestbank for RR 1.2 million, RR 3.7 million, RR 1.2 million and RR 3.6 million during the three and the nine months ended 30 September 2008 and the three and the nine months ended 30 September 2007, respectively.

The Group received bank services from LLC CB Transinvestbank for RR 25 million, RR 145 million, RR 27 million and RR 121 million during the three and the nine months ended 30 September 2008 and the three and the nine months ended 30 September 2007, respectively.

Cash and cash equivalents balance of the Group in LLC CB Transinvestbank at 30 September 2008 and 31 December 2007 were RR 258 million and RR 1,145 million, respectively.

(c) Transactions with key management

Key management personnel (the members of the Board of Directors and Management Committee of the Company) received the following remuneration, which is included in personnel expenses and has the following outstanding balances:

Expenses

| | For the three months ended 30 September 2008 | For the three months ended 30 September 2007 | For the nine months ended 30 September 2008 | For the nine months ended 30 September 2007 |
|---------------------------|---|---|--|--|
| Salaries and bonuses | 11 | 41 | 77 | 100 |
| Pension benefits expenses | 7 | - | 22 | - |
| Termination benefits | 11 | - | 130 | 15 |
| Total expenses | 29 | 41 | 229 | 115 |

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Notes to Consolidated Interim Financial Statements

(in millions of Russian Roubles)

Note 6. Related party transactions (continued)

Outstanding balance

| | Outstanding balance at 30 September 2008 | Outstanding balance at 31 December 2007 |
|--|--|---|
| Salaries and bonuses | 76 | 142 |
| Remunerations for service in Board of Directors and Management Committee | 7 | 10 |
| Termination benefits | 130 | 15 |
| Total liabilities | 213 | 167 |

(d) Transactions with other state-controlled entities

Information below excludes transactions and outstanding balances with OJSC Gazprom and its affiliates and RAO UES of Russia, its affiliates and successor companies as disclosed in Note 6(a).

In the normal course of business the Group enters into transactions with other entities under control of government of the Russian Federation.

Revenue

| | For the three months ended 30 September 2008 | For the three months ended 30 September 2007 | For the nine months ended 30 September 2008 | For the nine months ended 30 September 2007 |
|----------------------|---|---|--|--|
| Electricity | 2,956 | 955 | 7,648 | 2,168 |
| Heat | 2,312 | 1,516 | 17,423 | 14,003 |
| Other revenue | 48 | 21 | 127 | 113 |
| Total revenue | 5,316 | 2,492 | 25,198 | 16,284 |

Expenses

| | For the three months ended 30 September 2008 | For the three months ended 30 September 2007 | For the nine months ended 30 September 2008 | For the nine months ended 30 September 2007 |
|-----------------------|---|---|--|--|
| Fuel expenses | (107) | (507) | (489) | (1,797) |
| Water usage expenses | (131) | (88) | (318) | (243) |
| Other services | (301) | (55) | (432) | (507) |
| Total expenses | (539) | (650) | (1,239) | (2,547) |

Financial income and expenses

| | For the three months ended 30 September 2008 | For the three months ended 30 September 2007 | For the nine months ended 30 September 2008 | For the nine months ended 30 September 2007 |
|-----------------------------|---|---|--|--|
| Financial income | 32 | 138 | 322 | 199 |
| Financial expenses | - | - | - | (66) |
| Net financial income | 32 | 138 | 322 | 133 |

Outstanding balance

| | Outstanding balance at 30 September 2008 | Outstanding balance at 31 December 2007 |
|-----------------------------|--|---|
| Investments | - | 8,000 |
| Trade and other receivables | 639 | 648 |
| Other current assets | 523 | 523 |
| Cash and cash equivalents | 682 | 1,503 |
| Total assets | 1,844 | 10,674 |
| Trade and other payables | (182) | (147) |
| Total liabilities | (182) | (147) |

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(in millions of Russian Roubles)

Note 6. Related party transactions (continued)
Borrowings

| | Amount loaned for the nine months ended 30 September 2008 | Amount loaned for the nine months ended 30 September 2007 | Outstanding balance at 30 September 2008 | Outstanding balance at 31 December 2007 |
|---|--|--|--|---|
| Non-current borrowings | - | (1 213) | - | - |
| Current borrowings and current portion of non-current borrowings | - | (1 859) | - | - |
| Total borrowings | - | (3 072) | - | - |

Note 7. Property, plant and equipment
Revalued amount

| | Buildings and constructions | Plant and equipment | Heating networks | Other | Construction in progress | Total |
|--|--------------------------------|------------------------|---------------------|---------------|-----------------------------|----------------|
| Balance at 1 January 2007 | 50,925 | 31,818 | 4,393 | 12,074 | 7,297 | 106,507 |
| Elimination of accumulated depreciation | (27,550) | (13,647) | (2,437) | (8,216) | (20) | (51,870) |
| Revaluation | 20,304 | 13,293 | 9,308 | 4,234 | 2,248 | 49,387 |
| Additions | 5 | - | - | 40 | 15,803 | 15,848 |
| Disposals | - | (209) | (313) | (134) | (6) | (662) |
| Transfers | 140 | 113 | - | 435 | (688) | - |
| Balance at 30 September 2007 | 43,824 | 31,368 | 10,951 | 8,433 | 24,634 | 119,210 |
| Balance at 1 January 2008 | 49,049 | 39,271 | 12,221 | 3,625 | 24,889 | 129,055 |
| Reclassification | (738) | (122) | (34) | 894 | - | - |
| Additions | 3 | 1 | - | 13 | 19,882 | 19,899 |
| Disposals | (16) | (67) | - | (2) | (12) | (97) |
| Transfers | 10,367 | 5,371 | 14 | 2,696 | (18,448) | - |
| Balance at 30 September 2008 | 58,665 | 44,454 | 12,201 | 7,226 | 26,311 | 148,857 |

Depreciation and impairment losses

| | Buildings and constructions | Plant and equipment | Heating networks | Other | Construction in progress | Total |
|--|--------------------------------|------------------------|---------------------|----------------|-----------------------------|-----------------|
| Balance at 1 January 2007 | (27,550) | (13,647) | (2,437) | (8,216) | (20) | (51,870) |
| Elimination of accumulated depreciation | 27,550 | 13,647 | 2,437 | 8,216 | 20 | 51,870 |
| Depreciation charge | (1,812) | (1,514) | (1,383) | (343) | - | (5,052) |
| Disposals | 17 | 6 | 43 | - | - | 66 |
| Balance at 30 September 2007 | (1,795) | (1,508) | (1,340) | (343) | - | (4,986) |
| Balance at 1 January 2008 | (2,145) | (2,223) | (1,793) | (347) | - | (6,508) |
| Reclassification | (13) | (7) | (5) | 25 | - | - |
| Depreciation charge | (1,533) | (1,792) | (1,324) | (655) | - | (5,304) |
| Disposals | - | 2 | - | 1 | - | 3 |
| Balance at 30 September 2008 | (3,691) | (4,020) | (3,122) | (976) | - | (11,809) |

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Note 7. Property, plant and equipment (continued)

Net book value

| | Buildings and constructions | Plant and equipment | Heating networks | Other | Construction in progress | Total |
|----------------------|-----------------------------|---------------------|------------------|-------|--------------------------|---------|
| At 1 January 2007 | 23,375 | 18,171 | 1,956 | 3,858 | 7,277 | 54,637 |
| At 30 September 2007 | 42,029 | 29,860 | 9,611 | 8,090 | 24,634 | 114,224 |
| At 1 January 2008 | 46,904 | 37,048 | 10,428 | 3,278 | 24,889 | 122,547 |
| At 30 September 2008 | 54,974 | 40,434 | 9,079 | 6,250 | 26,311 | 137,048 |

Net book value had no revaluations taken place

| | Buildings and constructions | Plant and equipment | Heating networks | Other | Construction in progress | Total |
|----------------------|-----------------------------|---------------------|------------------|-------|--------------------------|--------|
| At 1 January 2007 | 23,375 | 18,171 | 1,956 | 3,858 | 7,277 | 54,637 |
| At 30 September 2007 | 22,568 | 17,543 | 1,888 | 3,724 | 22,105 | 67,828 |
| At 1 January 2008 | 16,835 | 29,017 | 2,043 | 4,393 | 20,991 | 73,279 |
| At 30 September 2008 | 25,363 | 31,309 | 1,658 | 5,375 | 21,780 | 85,485 |

Borrowing costs of RR 436 million and RR 786 million for the nine months ended 30 September 2008 and 2007, respectively, are capitalised in additions in above table. Capitalisation rates of 7.16% and 6.40% for the nine months ended 30 September 2008 and 2007, respectively, were used to determine the amount of borrowing costs eligible for capitalization representing the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period.

(a) Revaluation

The Group changed its accounting policy in respect of property, plant and equipment measurement from cost model to revaluation model starting from 1 January 2007 in order to provide users of the financial statements with more reliable information about the value of the Company's property, plant and equipment. The change in accounting policy was applied following the provisions of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* prospectively.

In 2006 the management of the Group commissioned appraiser LLC Ernst & Young to independently appraise the fair value of the Group's property, plant and equipment at 1 January 2007. The fair value of property, plant and equipment was determined to be RR 104,024 million.

The majority of the Group's property, plant and equipment is specialized in nature and is rarely sold on the open market other than as part of a continuing business. Except for office buildings, which were appraised on the basis of recent market transactions, the market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales of comparable property, plant and equipment for using a market-based approach for determining fair value.

Consequently, the fair value of property, plant and equipment primarily was determined using depreciated replacement cost method. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation and obsolescence.

The depreciated replacement cost was estimated based on internal sources, statistical data, catalogues and market data in respect of prices of construction companies and suppliers of equipment. The economic obsolescence was determined based on cash flow test results for each cash-generating unit.

The following key assumptions were used in performing cash flow testing:

- Cash flows were projected based on actual operating results and the 19-year business plan.
- The anticipated annual production growth included in cash flow projections was 3% for the years 2007 to 2025.
- A discount rate of 11.28% was applied in determining the recoverable amount of the plants.

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Note 7. Property, plant and equipment (continued)

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources.

As a result of the revaluation, the Group's equity increased by RR 37,534 million, comprising an increase in the carrying value of property, plant and equipment of RR 49,387 million, net of related deferred tax of RR 11,853 million.

(b) Security

Properties with a carrying amount of RR 1,745 million and RR 2,057 million at 30 September 2008 and 31 December 2007, respectively, are pledged as security for Company's bank loans (see Note 16).

(c) Change in classification

At 1 October 2007 the Group modified the classification of certain office buildings from property, plant and equipment to investment property in amount RR 1,010 million to reflect more appropriately the way in which economic benefits are derived from the use of the office buildings.

Starting from 1 January 2008 the Group changed classification of items of property, plant and equipment by groups from presentation based on the nature of activities in which assets are involved to presentation based on the technical characteristics of assets.

Note 8. Investment property

| | 2008 | 2007 |
|--------------------------------|--------------|----------|
| Balance at 1 January | 1,288 | - |
| Change in fair value | (63) | - |
| Balance at 30 September | 1,225 | - |

Investment property comprised a number of office buildings located in the center of Moscow city that were leased out to related parties. The fair value of investment property is determined using internationally accepted valuation methods, in particular real estate indexes.

Where the Group acts as the lessor, the future minimum lease payments under non-cancellable operating leases are as follows:

| | 30 September 2008 | 31 December 2007 |
|----------------------------|----------------------|---------------------|
| Less than one year | 190 | 196 |
| Between one and five years | 677 | 1,001 |
| More than five years | 127 | 85 |
| Total | 994 | 1,282 |

Rental income for the three and the nine months ended 30 September 2008 amounted to RR 53 million and RR 146 million, respectively, was recognised in statement of operations in other revenue.

Changes in fair value of investment property amounted to nil and RR 63 million for the three and the nine months ended 30 September 2008, respectively, were recognized in statement of operations in other operating expenses.

Note 9. Investments in equity accounted investees

The Group has the following investments in the equity accounted investees:

| Legal name | Principal activities | Country | Ownership | Voting |
|------------------------|--|---------|-----------|---------|
| LLC CB Transinvestbank | banking | Russia | 72.44 % | 33.33% |
| LLC SP Seba Energo | production of the laboratory equipment | Russia | 44.00 % | 44.00 % |

LLC CB Transinvestbank (the "Transinvestbank") is the legal entity engaged in banking business registered under the laws of Russian Federation. On 25 July 2007 Group's ownership interest in Transinvestbank increased from 24.61% to 72.44% in course of legal proceedings with former participants. Transaction costs incurred is a result of legal proceedings amounted to RR 957 million were capitalised in the cost of investment.

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Note 9. Investments in equity accounted investees (continued)

Contributed capital of Transinvestbank is divided between three participants with the equal voting rights of each participant. In accordance with the entity's Articles major decisions over entity's financing and operating policies require approval by at least 2/3 majority of the voting rights. The Company accounted for its investment in Transinvestbank using the equity method of accounting due to the fact that minority participants held substantive participating rights in the entity.

The table below summarizes movements in the carrying amount of the Group's investments in equity accounted investees:

| | 2008 | 2007 |
|---|--------------|--------------|
| Carrying amount at 1 January | 1,246 | 346 |
| Share of (loss) / profit of equity accounted investees | (41) | 22 |
| Change in ownership in equity of equity accounted investees | - | 957 |
| Dividends received | (164) | (49) |
| Carrying amount at 30 September | 1,041 | 1,276 |

The following is summarized financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group:

| | 30 September 2008 | 31 December 2007 |
|--------------------------|----------------------|---------------------|
| Current assets | 3,454 | 4,768 |
| Non-current assets | 168 | 166 |
| Total assets | 3,622 | 4,934 |
| Current liabilities | (2,181) | (3,242) |
| Total liabilities | (2,181) | (3,242) |
| Total equity | 1,441 | 1,692 |

| | For the three months ended 30 September 2008 | For the three months ended 30 September 2007 | For the nine months ended 30 September 2008 | For the nine months ended 30 September 2007 |
|---------------------------------------|---|---|--|--|
| Revenue | 183 | 173 | 575 | 559 |
| Expenses | (212) | (182) | (528) | (449) |
| (Loss) / profit for the period | (29) | (9) | 47 | 110 |

Note 10. Inventories

| | 30 September 2008 | 31 December 2007 |
|-------------------------------|----------------------|---------------------|
| Fuel | 2,830 | 2,754 |
| Raw materials and consumables | 1,616 | 1,639 |
| Other inventories | 145 | 51 |
| Total | 4,591 | 4,444 |

Raw materials and consumables are stated net of a provision for obsolete inventory amounted to RR 8 million and RR 7 million at 30 September 2008 and 31 December 2007, respectively. The write-downs and reversals are included in other operating expenses.

Inventories held by the Company are not subject to any retention of title clauses.

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Note 11. Investments

| | 30 September 2008 | 31 December 2007 |
|--|----------------------|---------------------|
| Held-to-maturity investments | | |
| Promissory notes of OJSC Gazprombank | - | 5,632 |
| Promissory notes of CJSC Gazenergoprombank | 290 | 9,569 |
| Loans given to CJSC Gazenergoprom-Invest | 13,375 | - |
| Call deposits placed in OJSC SB RF | - | 5,000 |
| Call deposits placed in OJSC Bank VTB | - | 3,000 |
| Other call deposits | 10 | - |
| Total | 13,675 | 23,201 |

Held-to-maturity investments have stated interest rate of 8.3% (31 December 2007: 8.3% to 8.75%) and mature in December 2008.

The Group's exposure to credit, currency and interest risks related to investments is disclosed in Note 30.

Note 12. Trade and other receivables

| | 30 September 2008 | 31 December 2007 |
|--|----------------------|---------------------|
| Trade receivables | 6,463 | 4,691 |
| Other receivables | 1,681 | 925 |
| Advances to suppliers and prepaid expenses | 3,412 | 3,364 |
| VAT recoverable and prepaid | 833 | 408 |
| Taxes other than income tax prepaid | 1,225 | 956 |
| Total | 13,614 | 10,344 |

Trade receivables balances are recorded net of provision for impairment of RR 2,361 million and RR 1,654 million at 30 September 2008 and 31 December 2007, respectively.

Other receivables balances are recorded net of provision for impairment of RR 194 million and RR 276 million at 30 September 2008 and 31 December 2007, respectively.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 30.

Note 13. Other assets

| | 30 September 2008 | 31 December 2007 |
|--|----------------------|---------------------|
| Other non-current assets | | |
| Available-for-sale investments | 9 | 9 |
| Intangible assets | 75 | 83 |
| Total | 84 | 92 |
| Other current assets | | |
| Constructed assets financed by the government of Moscow city | 523 | 523 |
| Other current assets | 1,704 | 1,475 |
| Total | 2,227 | 1,998 |

Since June 2005 the Group was engaged in the construction of the power substation further to be jointly used by the Group and the government of Moscow city. Construction of the power substation is jointly financed and shall be distributed between the parties involved upon completion. Included in other payables and accrued expenses liability to the government of Moscow city amounted to RR 523 million.

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Note 14. Cash and cash equivalents

| | 30 September 2008 | 31 December 2007 |
|---------------|------------------------------|-----------------------------|
| Bank balances | 1,525 | 8,161 |
| Call deposits | - | 3,000 |
| Total | 1,525 | 11,161 |

Call deposits are qualified as cash equivalents as original maturity of the deposits is three months or less from the date of acquisition.

Information in respect of call deposits and applicable interest rate is as follows:

| Bank | 30 September 2008 | | 31 December 2007 | |
|---------------|--------------------------|-----------------|-------------------------|-----------------|
| | % | Balances | % | Balances |
| OJSC Bank VTB | - | - | 8.3 | 3,000 |

Note 15. Equity**(a) Share capital and share premium**

At 30 September 2008 the authorised share capital comprised 39,749,359,700 ordinary shares (31 December 2007: 39,749,359,700) of RR 1.00 par value each. All issued shares are fully paid.

At 20 December 2006 general shareholders' meeting approved closed subscription for additional shares issue in favour of Gazprom group. The Company issued 11,500,000,000 ordinary shares with par value of RR 1.00 each. Offering price determined based on the quoted price of Company's shares during the period from 19 June 2006 to 19 December 2006 equaled RR 5.28 per share. Additional shares issue was registered with the governmental authorities on 5 July 2007.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by the Group (see below), all rights are suspended until those shares are reissued.

Share premium amounted to RR 49,213 million represents excess of the cash proceeds from the issue of share capital over its par value net of the transaction costs amounted to RR 7 million.

(b) Treasury stock

Treasury stock represents cost of Company's shares held by the Group. At 30 September 2008 and 31 December 2007 the Group held 140,229,451 and 156,101,884 of the Company's shares, respectively.

(c) Revaluation reserve

Revaluation reserve relates to the revaluation of property, plant and equipment made pursuant to change accounting policy at 1 January 2007 (see Note 7).

(d) Available-for-sale investments revaluation reserve

The available-for-sale investments revaluation reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

(i) Dividends

In May 2008 the general shareholders' meeting approved the decision not to distribute profit for fiscal 2007.

In May 2007 the annual general shareholders' meeting approved dividends for fiscal 2006 of RR 0.02116389 per share amounting to RR 600 million.

In July 2007 the general shareholders' meeting approved proposed by the management dividends for the period ended 31 March 2007 of RR 0.0104408508 per share for amounting to RR 296 million.

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Note 16. Borrowings

The note provides information about the contractual terms of the Group's interest-bearing borrowings, which are measured at amortized cost.

| | 30 September 2008 | 31 December 2007 |
|--|----------------------|---------------------|
| Non-current liabilities | | |
| Secured bank loans | 5,643 | - |
| Unsecured bond issues | 9,412 | - |
| Notes | 136 | 129 |
| Total | 15,191 | 129 |
| Current liabilities | | |
| Current portion of secured bank loans | 1,331 | 7,476 |
| Current portion of unsecured bond issues | - | 10,000 |
| Total | 1,331 | 17,476 |

(a) Terms and debt repayment schedule

Terms and conditions of outstanding liabilities are as follows:

| | Currency | Nominal interest rate | Year of maturity | 30 September 2008 | | 31 December 2007 | |
|------------------------------|--------------------|-----------------------------------|---------------------|-------------------|--------------------|------------------|--------------------|
| | | | | Face value | Carrying amount | Face value | Carrying amount |
| <i>Secured bank loans</i> | | | | | | | |
| EBRD | Russian Roubles | MosPrime+ from 2.5% to 3.5% | 2018 | 6,889 | 6,889 | 7,200 | 7,200 |
| EBRD | USD dollars | LIBOR+3.5% | 2018 | 85 | 85 | 166 | 166 |
| IFC | USD dollars | LIBOR+3.5% | 2009 | - | - | 110 | 110 |
| <i>Unsecured bond issues</i> | | | | | | | |
| Unsecured bond issue #1 | Russian Roubles | 7.54% | 2011 | 4,629 | 4,629 | 5,000 | 5,000 |
| Unsecured bond issue #2 | Russian Roubles | 7.65% | 2016 | 4,783 | 4,783 | 5,000 | 5,000 |
| <i>Notes</i> | | | | | | | |
| OJSC Mezhtopenergobank | Russian Roubles | free of interest | 2009 | 57 | 53 | 57 | 50 |
| OJSC Mezhtopenergobank | Russian Roubles | free of interest | 2010 | 95 | 83 | 95 | 79 |
| Total | | | | 16,538 | 16,522 | 17,628 | 17,605 |

(b) Secured bank loans

At 23 December 2005 European Bank for Reconstruction and Development (the "EBRD") provided the Company with credit line up to RR 7,200 million maturing from 2012 through 2018.

Other borrowings from EBRD and International Finance Corporation (the "IFC") are primarily repayable in US dollars maturing from 2008 through 2009.

Loans taken out by Mosenergo have certain mandatory terms and covenants regarding compliance with given levels of debt service coverage ratio, long-term debt to equity ratio and current ratio. As at 31 December 2007 OAO Mosenergo did not comply with covenants stated above which allowed EBRD and IFC to demand immediate repayment of the debt obligations amounted to RR 7,476 million. Accordingly, at 31 December 2007 bank loans in amount of RR 7,476 million were stated as current liabilities. As at 30 September 2008 OAO Mosenergo complied with covenants related to borrowings from EBRD and IFC.

Fixed assets with carrying amount of RR 1,745 million (31 December 2007: RR 2,057 million) are pledged as security for bank loans.

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Note 16. Borrowings (continued)

(c) Unsecured bond issues

At 2 March 2006 Mosenergo issued 5,000,000 non-convertible bonds with a face value of RR 1,000 each maturing in 10 years and a coupon yield at 7.65% per annum. At 19 September 2006 the Company issued another 5,000,000 non-convertible bonds with face value of RR 1,000 each maturing in 5 years and coupon yield at 7.54% per annum. All bonds were placed at nominal value and have half-year coupon period.

At shareholders' meeting on 28 December 2007 decision to merge Mosenergo with Mosenergo Holding was approved (see Note 1). In accordance with the pronouncements of Federal law №208-FZ as of 26 December 1995 "On joint stock companies" bondholders could call for early redemption of bonds in case of company's reorganization. Accordingly, as at 31 December 2007 bonds were stated as current liabilities. The last day for early redemption claim was determined to be 28 February 2008. As at 30 September 2008 bonds in amount of RR 9,412 million were stated as non-current liabilities as were not called for early redemption.

Note 17. Employee benefits

The Company sponsors a post employment and post retirement benefit program that covers the majority of the Company's employees.

The plan principally consists of a defined benefit plan enabling employees to contribute a portion of their salary to the plan and at retirement to receive a lump-sum amount equal to all past contributions made by employee. The plan is administrated by non-state pension fund Gazfund, and provides pension benefits primarily based on years of service and final remuneration levels. The Company also provides several long-term employee benefits such as jubilee benefit, death-in-service benefits, medical care and other defined benefits to certain old age and disabled pensioners.

| | 30 September 2008 | 31 December 2007 |
|--|----------------------|---------------------|
| Present value of unfunded obligations | 1,143 | 3,008 |
| Present value of funded obligations | - | - |
| Fair value of plan assets | - | - |
| Recognised liability for defined benefit obligations | 1,143 | 3,008 |
| Unrecognised actuarial gains/losses | (200) | (248) |
| Unrecognised past service costs | - | (1,481) |
| Total employee benefits | 943 | 1,279 |

(a) Movement in the present value of the defined benefit obligations

| | 2008 | 2007 |
|--|--------------|--------------|
| Defined benefit obligations at 1 January | 3,008 | 1,149 |
| Benefits paid by the plan | (178) | (282) |
| Current service costs | 71 | 84 |
| Interest on obligation | 130 | 136 |
| Actuarial (gains) losses recognised | (142) | 96 |
| Past service cost | - | 1,629 |
| (Gains) losses on curtailment | (1,746) | - |
| Defined benefit obligations at 30 September | 1,143 | 2,812 |

(b) Expenses recognised in profit or loss

| | For the three months ended 30 September 2008 | For the three months ended 30 September 2007 | For the nine months ended 30 September 2008 | For the nine months ended 30 September 2007 |
|------------------------------------|---|---|--|--|
| Current service costs | 8 | 17 | 71 | 84 |
| Interest on obligation | 32 | 62 | 130 | 136 |
| Amortisation of past service costs | (74) | (99) | - | 111 |
| Settlement expenses | 241 | - | 310 | - |
| Total | 207 | (20) | 511 | 331 |

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Note 17. Employee benefits (continued)**(c) Actuarial assumptions**

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

| | 30 September 2008 | 31 December 2007 |
|-------------------------|------------------------------|-----------------------------|
| Discount rate | 8.65% | 6.75% |
| Inflation rate | 6.00% | 5.00% |
| Future salary increases | 7.50% | 7.00% |
| Future pension increase | 6.00% | 5.00% |

Assumptions regarding future mortality are based on published statistics and mortality tables for the Moscow city region.

(d) Historical information

| | 30 September 2008 | 31 December 2007 |
|--|------------------------------|-----------------------------|
| Present value of the defined benefit obligation | 1,143 | 2,812 |
| Fair value of plan assets | - | - |
| Deficit in the plan | 1,143 | 2,812 |
| Experience adjustments arising on plan liabilities | 73 | (249) |
| Experience adjustments arising on plan assets | - | - |

Note 18. Trade and other payables

| | 30 September 2008 | 31 December 2007 |
|-------------------------------------|------------------------------|-----------------------------|
| Trade payables | 5,045 | 3,637 |
| Advances received | 1,308 | 855 |
| Dividends payable | - | - |
| Other payables and accrued expenses | 7,460 | 6,458 |
| Total | 13,813 | 10,950 |

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 30.

Note 19. Other taxes payable

| | 30 September 2008 | 31 December 2007 |
|--|------------------------------|-----------------------------|
| VAT payable | - | 238 |
| Social taxes and contributions payable | 170 | 150 |
| Property tax payable | 349 | 82 |
| Other taxes payable | 160 | 141 |
| Total | 679 | 611 |

Note 20. Provisions

| | Provision for buy- out of own shares | Litigations provision | Total |
|--------------------------------------|---|----------------------------------|--------------|
| Balance at 1 January 2007 | - | 390 | 390 |
| Provisions made during the period | - | 155 | 155 |
| Provisions used during the period | - | (312) | (312) |
| Provision reversed during the period | - | (1) | (1) |
| Balance at 30 September 2007 | - | 232 | 232 |
| Non-current provision | - | - | - |
| Current provision | - | 232 | 232 |
| Total | - | 232 | 232 |

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Note 20. Provisions (continued)

| | Provision for buy-out of own shares | Litigations provision | Total |
|--------------------------------------|-------------------------------------|-----------------------|-----------|
| Balance at 1 January 2008 | 969 | 46 | 1015 |
| Provisions made during the period | - | - | - |
| Provisions used during the period | (969) | - | (969) |
| Provision reversed during the period | - | (15) | (15) |
| Balance at 30 September 2008 | - | 31 | 31 |
| Non-current provision | - | - | - |
| Current provision | - | 31 | 31 |
| Total | - | 31 | 31 |

On 28 December 2007 extraordinary general shareholders' meeting approved decision to merge the Company with Mosenergo Holding. In accordance with the pronouncements of Federal law №208-FZ as of 26 December 1995 "On joint stock companies", all shareholders of Mosenergo which voted against reorganization or not participated in voting could claim for buy-out of all or part of their shares. 156,101,884 shares of Mosenergo were claimed by shareholders for buy-out at 6.21 RR per share for the total amount of RR 969 million.

Note 21. Revenue

| | For the three months ended 30 September 2008 | For the three months ended 30 September 2007 | For the nine months ended 30 September 2008 | For the nine months ended 30 September 2007 |
|---------------|--|--|---|---|
| Electricity | 13,670 | 9,117 | 38,133 | 28,378 |
| Heat | 3,172 | 2,333 | 24,604 | 21,549 |
| Other revenue | 1,172 | 886 | 3,342 | 3,237 |
| Total | 18,014 | 12,336 | 66,079 | 53,164 |

Other revenue relates to rent, water usage, repair and maintenance services provided by the Group.

Note 22. Cost of materials

| | For the three months ended 30 September 2008 | For the three months ended 30 September 2008 | For the nine months ended 30 September 2008 | For the nine months ended 30 September 2007 |
|--------------------------------|--|--|---|---|
| Fuel expenses | 9,009 | 6,870 | 32,889 | 25,876 |
| Purchased heat and electricity | 1,945 | 888 | 3,664 | 2,391 |
| Water usage expenses | 188 | 208 | 533 | 610 |
| Other materials expenses | 289 | 209 | 749 | 562 |
| Total | 11,431 | 8,175 | 37,835 | 29,439 |

Electricity is purchased mainly on wholesale electricity market. Transmission fees related to purchased heat transmission fees are included in other external supplies (see Note 23).

Note 23. Other external supplies

| | For the three months ended 30 September 2008 | For the three months ended 30 September 2008 | For the nine months ended 30 September 2008 | For the nine months ended 30 September 2007 |
|--|--|--|---|---|
| Repairs and maintenance expenses | 708 | 810 | 1,488 | 1,912 |
| Electricity market administration fees | 207 | 139 | 580 | 427 |
| Heat energy transmission | 1,249 | 855 | 9,619 | 8,205 |
| Security services | 77 | 65 | 233 | 197 |
| Fire prevention services | 22 | 15 | 64 | 46 |
| Transport services | 203 | 60 | 326 | 191 |
| Connection services | 79 | 74 | 232 | 227 |
| Other services | 66 | 70 | 183 | 203 |
| Total | 2,611 | 2,088 | 12,725 | 11,408 |

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(in millions of Russian Roubles)

Note 23. Other external supplies (continued)

Electricity market administration fees include payments to NP Administrator *torgovoi sistemy* and CJSC *Centr finansovyyh raschetov* for arrangement of settlements between parties on electricity market and payments to OJSC SO - CDU UES for regulation of operations of generating assets of the Group.

Note 24. Personnel expenses

| | For the three months ended 30 September 2008 | For the three months ended 30 September 2007 | For the nine months ended 30 September 2008 | For the nine months ended 30 September 2007 |
|-----------------------------|---|---|--|--|
| Wages and salaries | 1,989 | 1,835 | 5,585 | 4,188 |
| Payroll taxes | 321 | 268 | 1,264 | 1,072 |
| Long-service leave expenses | 63 | 133 | 193 | 272 |
| Pension benefits expenses | 8 | 17 | 71 | 84 |
| Plan settlement expenses | 241 | - | 310 | - |
| Total | 2,622 | 2,253 | 7,423 | 5,616 |

Mosenergo Group average headcount totaled 16 232 and 16 544 at 30 September 2008 and 31 December 2007, respectively.

Note 25. Other operating expenses

| | For the three months ended 30 September 2008 | For the three months ended 30 September 2007 | For the nine months ended 30 September 2008 | For the nine months ended 30 September 2007 |
|--|---|---|--|--|
| Trade and other receivables impairment loss / (gain) | 205 | (45) | 687 | 234 |
| Loss from change in fair value of investment property | - | - | 63 | - |
| (Gain) / loss on disposal of property, plant and equipment | (29) | 527 | 13 | 571 |
| Property, plant and equipment dismantlement costs | 9 | 8 | 24 | 16 |
| Lease payments, including rent expenses | 93 | 73 | 282 | 246 |
| Bank services | 38 | 27 | 144 | 128 |
| Legal, consulting and data processing services | 209 | 30 | 434 | 325 |
| Insurance expenses | 118 | 104 | 328 | 339 |
| Personnel training expenses | 3 | 5 | 47 | 24 |
| Maintenance of non-core and social assets | 103 | 108 | 332 | 357 |
| Charity and sponsorship expenses | 20 | 30 | 77 | 87 |
| Environmental expenses | 36 | 38 | 84 | 96 |
| Fines and penalties related to contracts violations | 39 | 11 | 368 | 318 |
| Entertaining expenses | 11 | 5 | 25 | 20 |
| Other miscellaneous | 25 | 11 | 224 | 320 |
| Total | 880 | 932 | 3 132 | 3 081 |

Maintenance of non-core and social assets expenses mainly relate maintenance of non-for-profit educational and medical organizations.

Note 26. Other operating income

| | For the three months ended 30 September 2008 | For the three months ended 30 September 2007 | For the nine months ended 30 September 2008 | For the nine months ended 30 September 2007 |
|--|---|---|--|--|
| Reimbursement of the difference in tariffs for sales to the urban population | 24 | 56 | 209 | 181 |
| Curtailment gain | 360 | - | 360 | - |
| Other miscellaneous | 27 | 2 | 35 | 68 |
| Total | 411 | 58 | 604 | 249 |

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(in millions of Russian Roubles)

Note 26. Other operating income (continued)

Reimbursement from government of Moscow city represents cash paid to the Company to compensate the difference between tariffs set to the urban population and the tariffs of the Company.

Note 27. Financial income and expenses

| | For the three months ended 30 September 2008 | For the three months ended 30 September 2007 | For the nine months ended 30 September 2008 | For the nine months ended 30 September 2007 |
|---|---|---|--|--|
| Financial income | | | | |
| Interest income on call deposits | 44 | 305 | 782 | 498 |
| Foreign exchange gain | 1 | 15 | 15 | 47 |
| Other interest income | 286 | 250 | 423 | 361 |
| Total financial income | 331 | 570 | 1,220 | 906 |
| Financial expenses | | | | |
| Interest expenses on borrowings | (342) | (345) | (1,060) | (1,218) |
| Interest on employee benefit obligations | (32) | (62) | (130) | (136) |
| Foreign exchange loss | (8) | (4) | (14) | (24) |
| Other interest expenses | (7) | (2) | (59) | (6) |
| Total financial expenses | (389) | (413) | (1,263) | (1,384) |
| Less capitalized interest expenses on borrowings related to qualifying assets | 145 | 390 | 436 | 786 |
| Net financial expenses recognized in statement of operations | (244) | (23) | (827) | (598) |

Note 28. Income tax expense**(a) Income tax expense**

The Group's applicable tax rate is the income tax rate of 24% (for the nine months ended 30 September 2007: 24%).

| | For the three months ended 30 September 2008 | For the three months ended 30 September 2007 | For the nine months ended 30 September 2008 | For the nine months ended 30 September 2007 |
|---|---|---|--|--|
| Current tax expense | | | | |
| Current period | 155 | 325 | (329) | (364) |
| (Under)/ over provided in prior periods | - | - | 712 | - |
| Deferred tax expense | | | | |
| Origination and reversal of temporary differences | - | - | (449) | 212 |
| Change in unrecognized temporary differences | - | - | - | - |
| Income tax expense | 155 | 325 | (66) | (152) |

Reconciliation of effective tax rate is as follows:

| | For the three months ended 30 September 2008 | For the three months ended 30 September 2007 | For the nine months ended 30 September 2008 | For the nine months ended 30 September 2007 |
|--|---|---|--|--|
| Loss before tax | (1,312) | (1,995) | (327) | (2,020) |
| Income tax at applicable tax rate | 315 | 479 | 79 | 485 |
| Non-deductible / non-taxable items | (159) | (154) | (857) | (637) |
| Change in unrecognized temporary differences | - | - | - | - |
| Over provided in prior periods | (1) | - | 712 | - |
| Income tax expense | 155 | 325 | (66) | (152) |

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(in millions of Russian Roubles)

Note 28. Income tax expense (continued)**(b) Income tax recognised directly in equity**

| | For the nine months ended 30 September 2008 | For the nine months ended 30 September 2007 |
|--|--|--|
| Revaluation of property, plant and equipment | - | (11,853) |
| Available-for-sale investments | 21 | - |
| Total | 21 | (11,853) |

(c) Deferred income tax

Recognised deferred tax assets and liabilities are as follows:

| | Assets | | Liabilities | | Net | |
|-------------------------------|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|
| | 30 September 2008 | 31 December 2007 | 30 September 2008 | 31 December 2007 | 30 September 2008 | 31 December 2007 |
| Property, plant and equipment | - | - | (18,081) | (18,019) | (18,081) | (18,019) |
| Investment property | - | - | (54) | (67) | (54) | (67) |
| Trade and other receivables | 88 | 207 | - | - | 88 | 207 |
| Employee benefits | 226 | 307 | - | - | 226 | 307 |
| Trade and other payables | 145 | 161 | - | - | 145 | 161 |
| Other | 70 | 282 | (248) | (298) | (178) | (16) |
| Total | 529 | 957 | (18,383) | (18,384) | (17,854) | (17,427) |

Movements in temporary differences during the period are as follows:

| | 31 December 2006 | Recognized in income | Recognized in equity | 30 September 2007 |
|-------------------------------|---------------------|-------------------------|-------------------------|----------------------|
| Property, plant and equipment | (6,768) | 571 | (11,853) | (18,050) |
| Investment property | - | - | - | - |
| Trade and other receivables | 173 | (114) | - | 59 |
| Employee benefits | 279 | 12 | - | 291 |
| Trade and other payables | 127 | (178) | - | (51) |
| Other | 177 | (79) | - | 98 |
| Total | (6,012) | 212 | (11,853) | (17,653) |

| | 31 December 2007 | Recognized in income | Recognized in equity | 30 September 2008 |
|-------------------------------|---------------------|-------------------------|-------------------------|----------------------|
| Property, plant and equipment | (18,019) | (62) | - | (18,081) |
| Investment property | (67) | 13 | - | (54) |
| Trade and other receivables | 207 | (119) | - | 88 |
| Employee benefits | 307 | (81) | - | 226 |
| Trade and other payables | 161 | (16) | - | 145 |
| Other | (16) | (183) | 21 | (178) |
| Total | (17,427) | (448) | 21 | (17,854) |

Note 29. Earnings per share

The calculation of basic earning per share was based on the profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding, calculated as follows:

The following is a reconciliation of the weighted average number of ordinary shares outstanding during the period (in thousand of shares):

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(in millions of Russian Roubles)

Note 29. Earnings per share (continued)

| | For the three months ended 30 September 2008 | For the three months ended 30 September 2007 | For the nine months ended 30 September 2008 | For the nine months ended 30 September 2007 |
|---|---|---|--|--|
| Issued shares | 39,609,130 | 28,249,360 | 39,635,716 | 28,249,360 |
| Effect of own shares held | 140,229 | - | 113,643 | - |
| Effect of shares issued in July 2007 | - | 1,250,000 | - | 422,794 |
| Weighted average number of ordinary shares | 39,749,359 | 29,499,360 | 39,749,359 | 28,672,154 |

The following is a reconciliation of the profit attributable to ordinary shareholders:

| | For the three months ended 30 September 2008 | For the three months ended 30 September 2007 | For the nine months ended 30 September 2008 | For the nine months ended 30 September 2007 |
|--|---|---|--|--|
| Weighted average number of ordinary shares issued (thousands) | 39,609,130 | 29,499,360 | 39,635,716 | 28,672,154 |
| Loss for the period | (1,157) | (1,670) | (393) | (2,172) |
| Loss per ordinary share (basic and diluted) (in Russian Roubles) | (0.03) | (0.06) | (0.01) | (0.07) |

Note 30. Financial instruments**(a) Credit risk****Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| | Carrying amount | |
|-------------------------------------|----------------------|---------------------|
| | 30 September 2008 | 31 December 2007 |
| Available-for-sale financial assets | 9 | 9 |
| Held-to-maturity investments | 13,675 | 23,201 |
| Receivables | 8,144 | 5,616 |
| Cash and cash equivalents | 1,525 | 11,161 |
| Total | 23,353 | 39,987 |

The maximum exposure to credit risk for receivables at the reporting date by type of sales was:

| | Carrying amount | |
|--------------|----------------------|---------------------|
| | 30 September 2008 | 31 December 2007 |
| Electricity | 3,793 | 723 |
| Heat | 2,670 | 2,209 |
| Other | 1,681 | 2,684 |
| Total | 8,144 | 5,616 |

The Group's most significant customer, OJSC MOEK, accounts for RR 1,380 million for the trade receivables carrying amount at 30 September 2008 (31 December 2007: RR 1,533 million).

Impairment losses

The aging of trade receivables at the reporting date was:

| | 30 September 2008 | | 31 December 2007 | |
|----------------------|-------------------|--------------|------------------|--------------|
| | Gross | Impairment | Gross | Impairment |
| Not past due | 7,629 | - | 4,634 | - |
| Past due 0-30 days | 8 | - | 6 | - |
| Past due 31-120 days | 234 | - | 650 | - |
| More than one year | 2,828 | 2,555 | 2,256 | 1,930 |
| Total | 10,699 | 2,555 | 7,546 | 1,930 |

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(in millions of Russian Roubles)

Note 30. Financial instruments (continued)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

| | 2008 | 2007 |
|--------------------------------|--------------|--------------|
| Balance at 1 January | 1,930 | 1,416 |
| Impairment loss recognised | 625 | 48 |
| Balance at 30 September | 2,555 | 1,464 |

The impairment loss at 30 September 2008 of RR 2,555 million relates to the customers that was declared bankrupt or had significant liquidity problems during the reporting period.

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 180 days; 23.88 percent of the balance, which includes the amount owed by the Group's most significant customer (see above), relates to customers that have a good track record with the Group.

The allowance accounts in respect of trade receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly.

(b) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments at 30 September 2008:

| | Carrying amount | Contractual cash flows | 0-6 mths | 6-12 mths | 1-2 yrs | 2-3 yrs | 3-4 yrs | 4-5 yrs | Over 5 yrs |
|---|-----------------|------------------------|---------------|-----------|--------------|--------------|--------------|------------|--------------|
| Non-derivative financial liabilities | | | | | | | | | |
| Secured bank loans | 6,974 | 9,324 | - | - | 4,022 | 1,654 | 1,530 | 450 | 1,668 |
| Unsecured bond issues | 9,412 | 11,225 | - | - | 5,710 | 366 | 5,149 | - | - |
| Notes | 136 | 152 | - | 57 | 95 | - | - | - | - |
| Finance lease liabilities | - | - | - | - | - | - | - | - | - |
| Trade and other payables | 13,813 | 13,813 | 13,813 | - | - | - | - | - | - |
| Total | 30,335 | 34,514 | 13,813 | 57 | 9,827 | 2,020 | 6,679 | 450 | 1,668 |

The following are the contractual maturities of financial liabilities, including estimated interest payments at 31 December 2007:

| | Carrying amount | Contractual cash flows | 0-6 mths | 6-12 mths | 1-2 yrs | 2-3 yrs | 3-4 yrs | 4-5 yrs | Over 5 yrs |
|---|-----------------|------------------------|---------------|-----------|-----------|-----------|----------|----------|------------|
| Non-derivative financial liabilities | | | | | | | | | |
| Secured bank loans | 7,476 | 10,819 | 10,819 | - | - | - | - | - | - |
| Unsecured bond issues | 10,000 | 12,550 | 12,550 | - | - | - | - | - | - |
| Notes | 129 | 152 | - | - | 57 | 95 | - | - | - |
| Finance lease liabilities | - | - | - | - | - | - | - | - | - |
| Trade and other payables | 10,950 | 10,950 | 10,950 | - | - | - | - | - | - |
| Total | 28,555 | 34,471 | 34,319 | 0 | 57 | 95 | - | - | - |

Note 30. Financial instruments (continued)

(c) Currency risk

Exposure to currency risk

| | 30 September 2008 | | 31 December 2007 | |
|-------------------------------------|-------------------|------------------|------------------|------------------|
| | USD-denominated | Euro-denominated | USD-denominated | Euro-denominated |
| Trade and other payables | - | - | - | - |
| Secured bank loans | (85) | - | (276) | - |
| Gross balance sheet exposure | (85) | - | (276) | - |
| Estimated forecasted sales | - | - | - | - |
| Estimated forecasted purchases | - | - | - | - |
| Gross exposure | - | - | - | - |
| Net exposure | (85) | - | (276) | - |

The following significant exchange rates applied during the year:

| | Average rate | | Reporting date spot rate | |
|--------|-------------------|------------------|--------------------------|------------------|
| | 30 September 2008 | 31 December 2007 | 30 September 2008 | 31 December 2007 |
| USD 1 | 24.0294 | 25.5516 | 25.2464 | 24.5462 |
| EURO 1 | 36.5900 | 35.0297 | 36.3700 | 35.9332 |

Sensitivity analysis

A 10% strengthening of the RR against the following currencies at 30 September 2008 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 31 December 2007.

| | 30 September 2008 | 31 December 2007 |
|------|-------------------|------------------|
| USD | (9) | (28) |
| EURO | - | - |

A 10% weakening of the RR against the above currencies at 30 September 2008 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(d) Interest rate risk

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

| | Carrying amount | |
|----------------------------------|-------------------|------------------|
| | 30 September 2008 | 31 December 2007 |
| Fixed rate instruments | | |
| Financial assets | 23,353 | 39,987 |
| Financial liabilities | (9,548) | (10,129) |
| Variable rate instruments | | |
| Financial liabilities | (6,974) | (7,476) |

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

A change of 100 basis points in interest rates would have increased or decreased equity by RR 65 million (31 December 2007: RR 6 million).

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(in millions of Russian Roubles)

Note 30. Financial instruments (continued)**Cash flow sensitivity analysis for variable rate instruments**

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 31 December 2007.

| | 30 September 2008 | | 31 December 2007 | |
|-----------------------------|-------------------|-----------------|------------------|-----------------|
| | 100 bp increase | 100 bp decrease | 100 bp increase | 100 bp decrease |
| Variable rate instruments | (65) | 65 | (6) | 6 |
| Cash flow sensitivity (net) | (65) | 65 | (6) | 6 |

(e) Fair values

The management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts:

| | 30 September 2008 | | 31 December 2007 | |
|-------------------------------------|-------------------|------------|------------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Available-for-sale financial assets | 9 | 9 | 9 | 9 |
| Held-to-maturity investments | 13,675 | 13,675 | 23,201 | 23,201 |
| Receivables | 8,144 | 8,144 | 5,616 | 5,616 |
| Secured bank loans | (6,974) | (6,974) | (7,476) | (7,476) |
| Unsecured bond issues | (9,412) | (9,229) | (10,000) | (9,989) |
| Notes | (136) | (136) | (129) | (129) |
| Trade and other payables | (13,813) | (13,813) | (10,950) | (10,950) |

The basis for determining fair values is disclosed in Note 4.

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an adequate credit spread, were as follows:

| | Carrying amount | |
|------------|-------------------|------------------|
| | 30 September 2008 | 31 December 2007 |
| Borrowings | 14.7 | 11.5 |

Note 31. Commitments and contingencies**(a) Capital commitments**

During the period ended 30 September 2008 the Group entered into a number of contracts for construction and purchase of property, plant and equipment for RR 46 145 million (at 31 December 2007: RR 20 406 million). These commitments are expected to be settled in 2009 financial year.

(b) Operating leases

Commitments for operating leases refer mainly to long-term rental agreements for land rent where Group's generation facilities are located. The leases typically run for a periods from 5 to 45 years with an option to renew the lease. During the three and nine months ended 30 September 2008 and 30 September 2007 RR 89 million, RR 266 million, RR 69 million and RR 213 million were recognised as an expenses in profit or loss in respect of operating lease.

Commitments for minimum lease payments are as follows:

| | 30 September 2008 | 31 December 2007 |
|----------------------------|-------------------|------------------|
| Less than one year | 344 | 355 |
| Between one and five years | 1,338 | 1,778 |
| More than five years | 8,811 | 15,285 |
| Total | 10,493 | 17,418 |

Note 31. Commitments and contingencies (continued)

(c) Taxation environment

The taxation systems in the Russian Federation are relatively new and are characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among different tax authorities within the same jurisdictions and among taxing authorities in different jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. In the Russian Federation a tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(d) Legal proceedings

The Group is a party in a number of legal proceedings arising in the ordinary course of business. Management believes that there are no nonprovided claims outstanding, which would have a material adverse impact on the Group's operating results and financial position.

(e) Environmental liabilities

Environmental regulations are currently in the process of development in the Russian Federation. Group evaluates on a regular basis its obligations due to new and amended legislation. As liabilities in respect of environmental obligations are able to be measured, they are immediately recognised in profit or loss. Currently the likelihood and amount of potential environmental liabilities cannot be estimated reliably and could be material. Under existing legislation, however, management believes that there are no significant underscoring liabilities or contingencies which could have a materially adverse effect on the operating results or financial position of the Group.

(f) Insurance

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in other parts of the world are not generally available. Management believes that the Group has adequate property damage coverage for its main production assets. The Group does not have full coverage for business interruption and third party liability. Until the Group obtains adequate insurance coverage, there is a risk that the loss from business interruption and third party liability could have a material adverse effect on the Group's operations and financial position.